

2005 Annual Homebuyer Education Survey



Increasing and preserving homeownership for low and moderate-income individuals and families

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Acknowledgements

Creating Homeownership Opportunities is the result of a collaborative effort between several groups dedicated to increasing affordable homeownership opportunities in the state of Washington.

Since 1999, the Washington Homeownership Center (WHC) has received funding from the Department of Housing and Urban Development (HUD) to conduct a survey of participants in First-Time Homebuyer Education seminars. The purpose of this survey is to identify issues relevant to first-time homebuyers and to determine which resources are most helpful on the path to homeownership. This document outlines the results of the combined “*Needs Assessment Survey*” and “*Follow Up Survey*” administered to prospective homebuyers attending Washington State Housing Finance Commission (the Commission) seminars from March 2004 to December 2004.

WHC would like to thank HUD for providing funding for this project and the Commission for its ongoing education of first-time homebuyers and support of affordable homeownership programs throughout the state. We also wish to acknowledge the dedication and efforts of the Commission-trained Homebuyer Education instructors who provide support and education to the families and individuals who dream of owning their own home.

And of course, special thanks go to the many people who attended the seminars, provided feedback and took the time to participate in this survey. We have included quotations from participants in the seminars so that you may read what first-time homebuyers have to say in their own words. Whenever possible we have included the names and locations of those quoted.

If you have any questions or comments regarding this report please contact WHC staff: Jeff Caden, Executive Director, or Emily Nolan, Program Manager, at (866) 600-6466.

2005 Statewide Homebuyer Education Survey: Survey Analysis

Who Should Read This Report?

If you are working in the housing industry in Washington State, whether you are a lender, real estate professional, government or non-profit housing professional, this report should provide useful insight into the first-time homebuyer's experience.

We hope that by understanding the perspective of buyers based on their experiences, you as professionals in the field will be better equipped to tailor your programs and products to help meet the challenges that homebuyers themselves have identified. Barriers to homeownership can be bridged, but it takes a team of dedicated advocates to bring equal access to all.

Since 1996, WHC has conducted a survey of potential first-time homebuyers. The survey participants attended a Commission sponsored First-Time Homebuyer Education seminar between March 2004 and December 2004. These five-hour seminars are taught by professionals in the real estate, non-profit housing counseling and mortgage industries. Between March 2004 and December 2004, 841 seminars were taught in Washington State, educating over 8,000 potential first-time homebuyers.

Commission-Sponsored Seminar Locations



Key Findings: Emerging Trends for Homebuyers in Washington

- In this year's report, 52% of respondents to our *Follow-Up Survey* reported that they had purchased a home.
- In addition, 28% of those respondents from the previous year's survey (2003) that at that time had not achieved homeownership, reported that they had become homeowners within the last year.
- Our statistics show the largest **segment of participants in Commission sponsored Homebuyer Education Seminars continues to be from lower-income homebuyers**. In 2001, only 23% of attendees reported incomes of \$20,000-\$29,000, but by 2004, 35% of households reported incomes at that level.
- The two most commonly cited obstacles to homeownership remain "Having enough money for down payment and closing costs" and "Finding a house I like and can afford." Taken as a whole, households in the state of Washington have identified these as the two main obstacles since we began collecting data in 1997.
- Since 2002, WHC has been gathering statistics to determine where in the home buying process participants are at the time of the seminar. We categorized the phases ranging from "Just starting to look" to "Have made an offer to purchase". The majority of participants in Commission-sponsored seminars reported that they are either "Just starting to look" or "Saving for a down payment" at the time of the seminar. **Only 17% of participants in 2004 had already been pre-approved for a mortgage loan.**

Report Methodology

First-Time Homebuyer “Needs Assessment Questionnaire” and “Follow-Up Survey”

The 2004-2005 survey was conducted in two phases. First, Homebuyer Education participants completed WHC’s *Needs Assessment Questionnaire*, administered by instructors during the seminar sessions. In August 2005, WHC mailed the *Follow-Up Survey* to 6,200 seminar participants to track their progress. Of these, 956 households returned the *Follow-Up Survey*, a response rate of 15%.

In 2003, only 2,300 surveys were sent to seminar participants six to twelve months after participating in Commission-sponsored homebuyer education seminars. These participants attended seminars up until February of 2004. For 2004-2005, we felt that in order to establish a more valid baseline, we sent surveys to all participants instead of a random sampling.

In *Phase One* of the survey process, attendees were asked to fill out the *Needs Assessment Questionnaire* at the beginning of their seminar, identifying the issues and obstacles they face in the home buying process, for example: “Is money for a down payment an obstacle to purchasing a home?” WHC staff collected the data and entered it into a database. The *Needs Assessment Questionnaire* also identified the homebuyer stage a household was in at the time of the seminar (i.e., “Just beginning”, “Saving for a down payment”, “Actively house hunting” and so forth (Appendix A). Demographic information (location, ethnicity and income) was also collected from the *Needs Assessment Questionnaire*.

In *Phase Two* of our statewide homebuyer survey – 8 to 18 months after participants attend a seminar – WHC mailed a *Follow-Up Survey* to participants. The survey asked a series of questions designed to determine the rate of progress households have made in the home buying process (Appendix B).

The follow-up questions included:

- Did you purchase a home?
- If yes, which loan product did you use?
- Did you utilize down payment assistance?
- What were the most important resources for you in the home buying process?

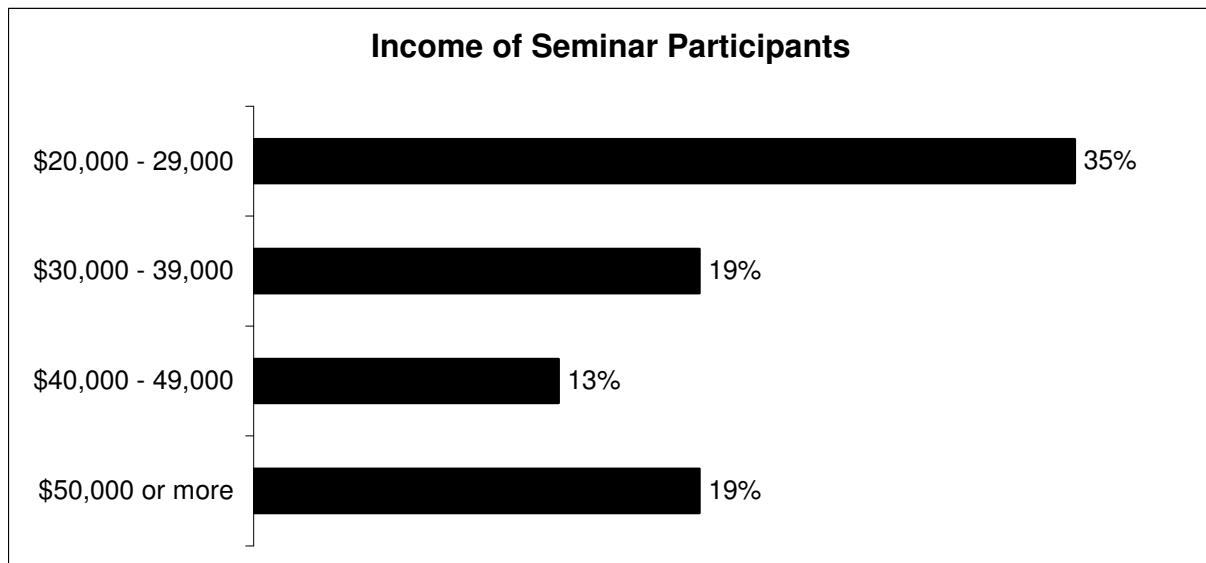
In addition, in order to gather additional longitudinal data, we sent another survey identical to the *Follow-Up Survey* above to those respondents from last year’s (2003) survey, who were at that time not able to achieve homeownership.

Results of the Needs Assessment Questionnaire

Profile of WSHFC Seminar Participants: Lower to Moderate Income, Motivated Buyers

Income Level

Our 2004 Needs Assessment shows that a majority 54% of seminar participants statewide are lower to moderate-income households earning between \$20,000 and \$40,000 per year. An additional 13% of those surveyed earn \$40,000-\$50,000 per year, 19% of attendees earn \$50,000 or more and 14% did not provide income information.



According to the *Needs Assessment Questionnaire*, higher numbers of lower-income households attended Commission-sponsored seminars in 2003 and 2004. In 2001, only 23% of attendees reported incomes of \$20,000-\$29,000. By 2004, 35% of households reported that level of income.

Between 2001 and 2004, the number of moderate-income households participating in homebuyer seminars also fluctuated a bit. Those reporting incomes of \$30,000-39,000 decreased by 5% during that time period, and those reporting incomes of \$40,000-49,000 decreased by 2%.

Higher-income households (\$50,000 or more) comprised 19% of those surveyed in 2004-down from a high of 28% in 2002.

Ethnicity of Seminar Participants

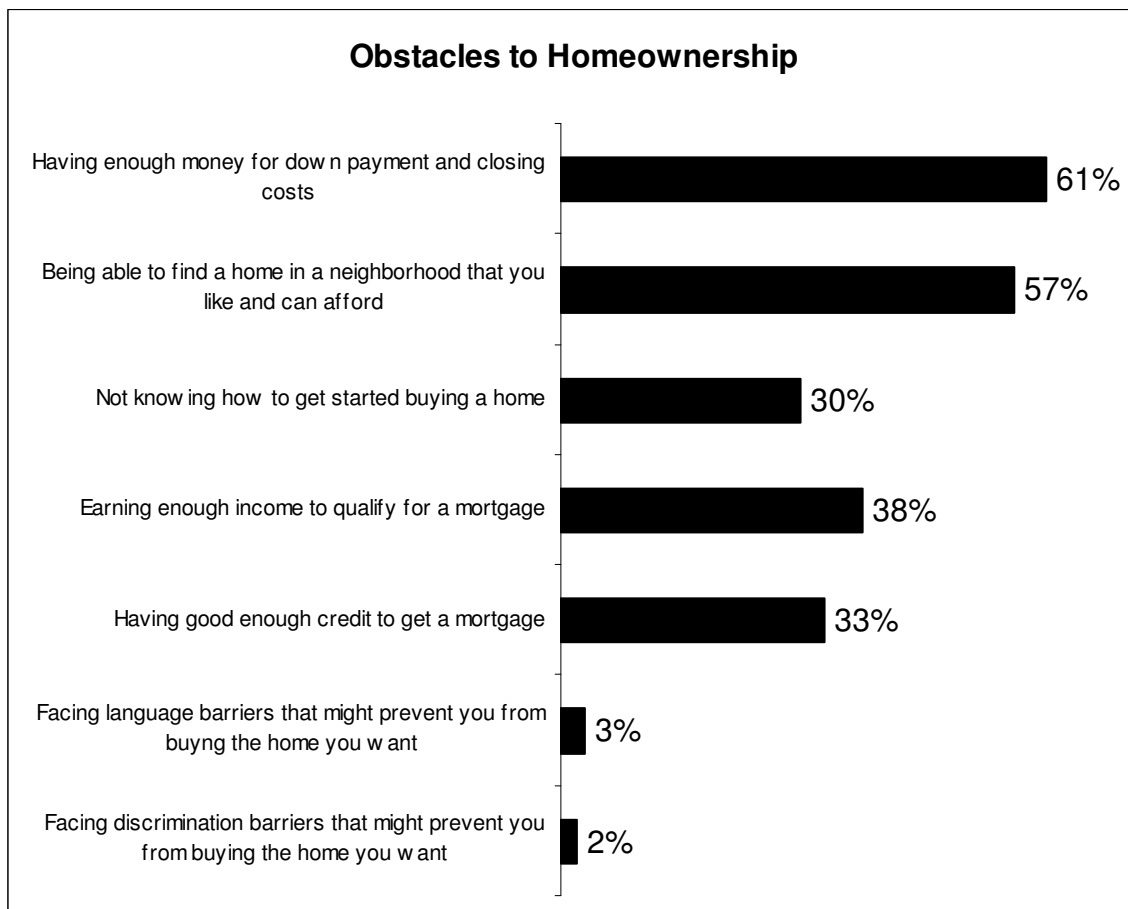
The ethnic makeup of seminar participants has remained consistent over the last few years. Results from 2004:

African American or Black	7%
American Indian/Alaska Native	2%
Asian/Pacific Islander	8%
Hispanic/Latino	7%
White	68%
Other	8%

Self-Reported Obstacles to Homeownership

Participants were asked: “What are your perceived obstacles to homeownership for you to date?” They were provided with seven possible obstacles and a write-in section for “Other obstacles”.

Of those who responded to the following questions, the number of households who stated “Yes, this is an obstacle”, are summarized for 2004.



The two most commonly cited obstacles to homeownership, across the state, remain “Having enough money for down payment and closing costs (61%)” and “Finding a House I Like and Can Afford (57%)”. Taken as a whole, households in Washington have identified these as the two main obstacles since the WSHFC began collecting data in 1997.

“Even with enough money for a down payment, excellent credit, and pre-approval, we still haven’t found a home in this area because there isn’t any low-income housing, nothing under \$160,000 that isn’t a broken-down mobile home that was built in 1920”.

Patrick and Kim L. – Port Angeles, WA

Credit as a “perceived” Obstacle to Homeownership dropped in 2004 to 33%.

Credit as an Obstacle to Homeownership					
2004	2003	2002	2001	2000	1999
33%	49%	43%	28%	40%	46%

Sixty one percent of those surveyed said that having enough money for a down payment was an obstacle and 57% said that finding an affordable home was an obstacle. Despite these difficulties, over half the people taking homebuyer education seminars managed to purchase a home after completing a seminar (*WHC Follow-Up Survey*).

Phase in the Home Buying Process for participants at time of seminar

Since 2002, WHC has gathered statistics to determine where homebuyers are in the home buying process at the time of the seminar. We categorized the phases ranging from “Learning about the home buying process” to “Have accepted offer on a house/ready to close”.

The majority of participants in Commission-sponsored seminar reports that they are “Learning about the home buying process” at the time of the seminar.

Phase in the Home Buying Process

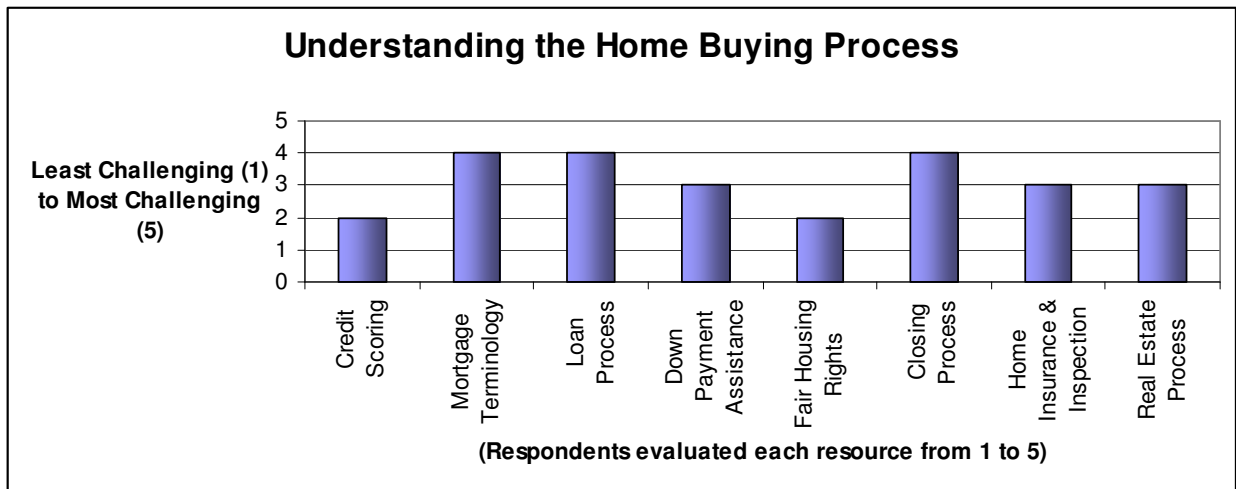
Learning about the home buying process	Reducing debt/cleaning up credit	Shopping for a loan	Pre-approved for a loan	Searching for a home to buy	Have an accepted offer on a house	Other
67%	30%	24%	17%	27%	10%	4%

WHC Follow-Up Survey Results

Trends: New Homebuyers

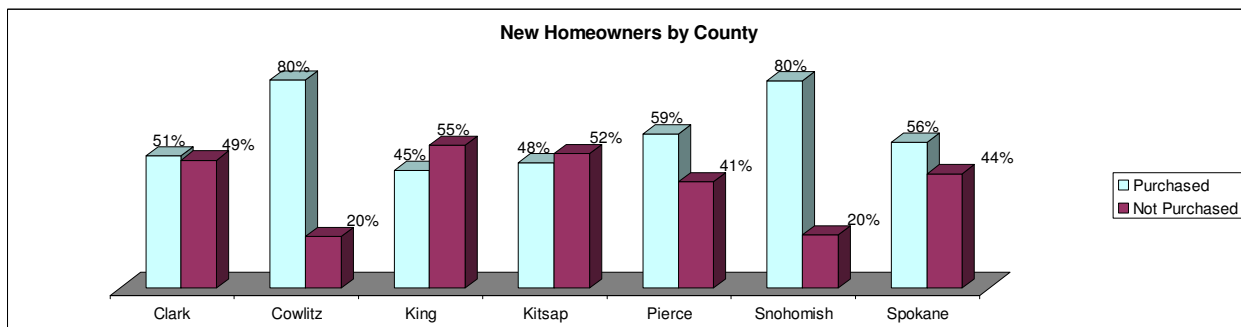
WHC mailed 6,200 *Follow-Up Surveys* to seminar participants 8-15 months after they have attended a seminar. Of these, 956 households (15%) returned the surveys. In 2005, 52% of respondents to our *Follow-Up Survey* reported that they had purchased a home.

Along with asking participants whether they purchased a home or not, we also asked what they found to be challenging about the home buying process. The following chart shows that respondents found the most challenging part of the home buying process to be those areas that dealt with getting a loan and the closing.



Homeownership by county

For the last few years, WHC has tracked the homeownership rates of seminar participants from various counties throughout the state. As the chart indicates, Cowlitz and Snohomish counties have the highest percentage rate of seminar participants that have achieved homeownership.

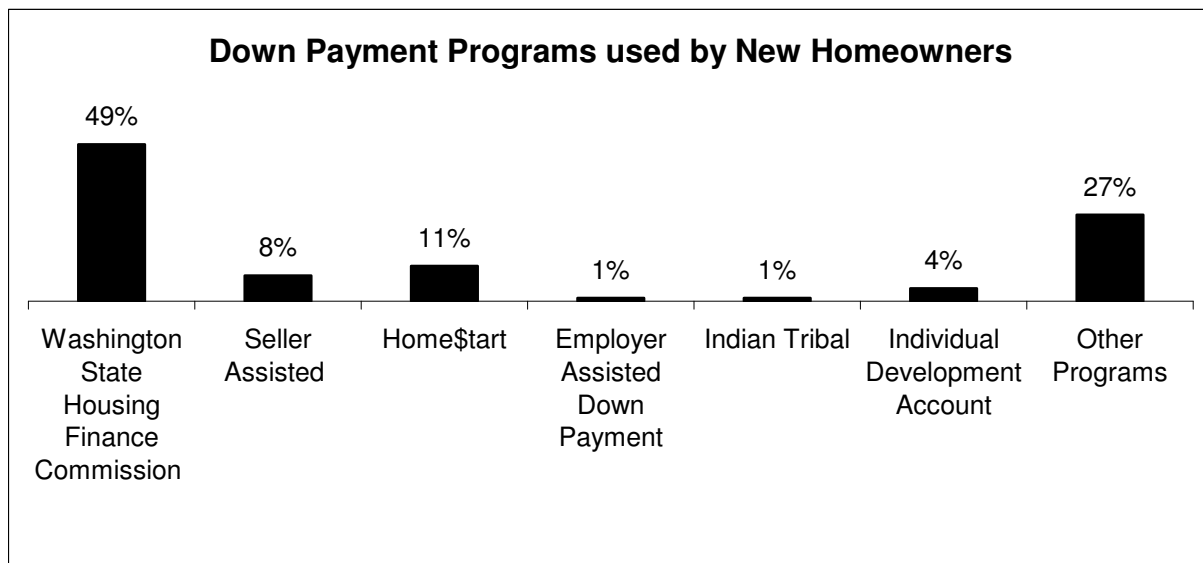


In looking back at last year’s numbers, the percentage of seminar participants that achieved homeownership remained consistent for most counties, with the exception of Snohomish which increased homeownership conversion by 30%.

How Many New Homebuyers Used Down Payment Assistance?

Thirty percent of survey respondents that achieved homeownership (154 respondents) used a down payment assistance program to purchase their home. Down payment assistance programs help bridge the homeownership affordability gap for lower and moderate-income households. Eligibility for such programs is based upon median household income, family size, credit score, geographic region, first-time homebuyer status and participation in homebuyer education seminars. WHC asked “Did you use any down payment assistance?” and, if so, “What type of down payment assistance did you use?” Only 5% of those respondents who used down payment assistance, indicated that they were able to take advantage of and layer two or more assistance programs.

The following graph shows the types of down payment assistance programs homebuyers used to help finance their purchase.



Commonly Used Down Payment Assistance Programs:

- **Washington State Housing Finance Commission (WSHFC)** – Offers low-interest rate statewide programs including HouseKey Plus that provides assistance up to \$5,000 (\$7,500 for Clark, Island, King, Pierce, and Snohomish counties) and HomeChoice that provides assistance up to \$15,000 for people with disabilities or household members with disabilities.

- **Seller Assisted Programs** - The seller contributes funds to a designated non-profit organization that then provides the funds, minus a processing fee, to the buyer as a gift of down payment. In many cases, the home price has been raised to compensate the seller for their gifted amount. The buyer has a higher loan amount and finances the down payment over the life of the loan. Some common programs are AmeriDream, HomeStep, Hart and Nehemiah.
- **Home\$start** - Member financial institutions use Home\$start to obtain grants through the Federal Home Loan Bank to match the savings of first-time homebuyers. The bank matches the prospective homeowner's savings \$3 for every \$1 saved, up to a maximum \$5,000.
- **Individual Development Account (IDA)** - Are matched savings accounts that are designed to help clients build savings for an investment with a high return. Clients can contribute a maximum \$2,000 that is matched at a rate of \$3 for every \$1.
- **AFL -CIO** - Programs for Union members, City of Seattle employees and over 20 companies and organizations in Washington.
- **Other** - Various programs were mentioned that are specific to rural areas, particular counties, or for identified ethnic groups. Some of the programs cited by respondents included: Seattle Housing Authority, Lummi Island CLT, USDA and Pierce County down payment assistance.

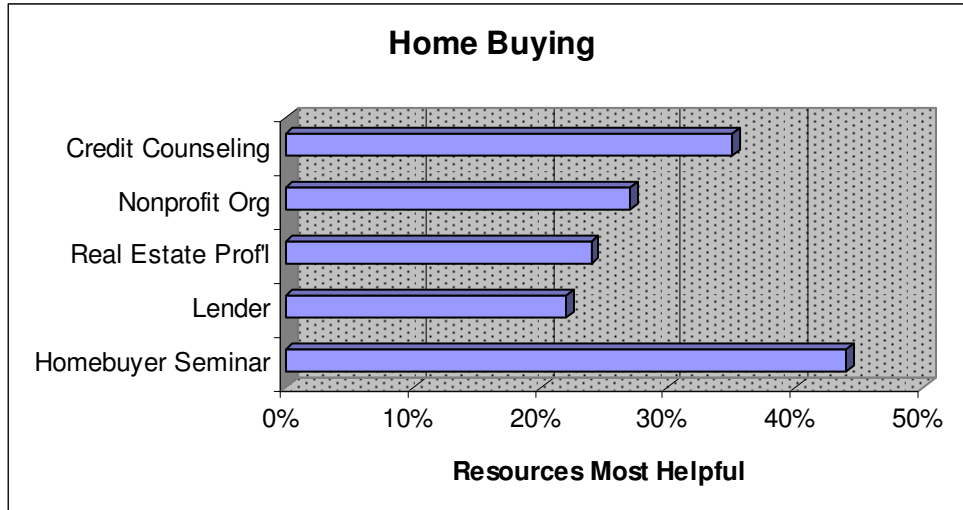
Type of Loan Used by Home Buyers

WHC's *Follow-Up Survey* asked, "What type of loan did you use?" Although over 499 households who had purchased a home returned the survey, a high number of those respondents did not answer this question or indicated that they did not know what type of loan they had.

Conventional	FHA	House Key	Unknown	USDA	VA
37%	21%	14%	6%	10%	5%

The Most Helpful Resources for Buyers

We asked homebuyers to rank the most helpful resources on a scale of 1 (most helpful) to 5 (least helpful). Respondents reported that homebuyer education was the most important resource for them during the home buying process, whether or not they had purchased a home. This was followed by credit counseling agencies and then by non-profits. Real estate professionals were close behind at just over 20% apiece.

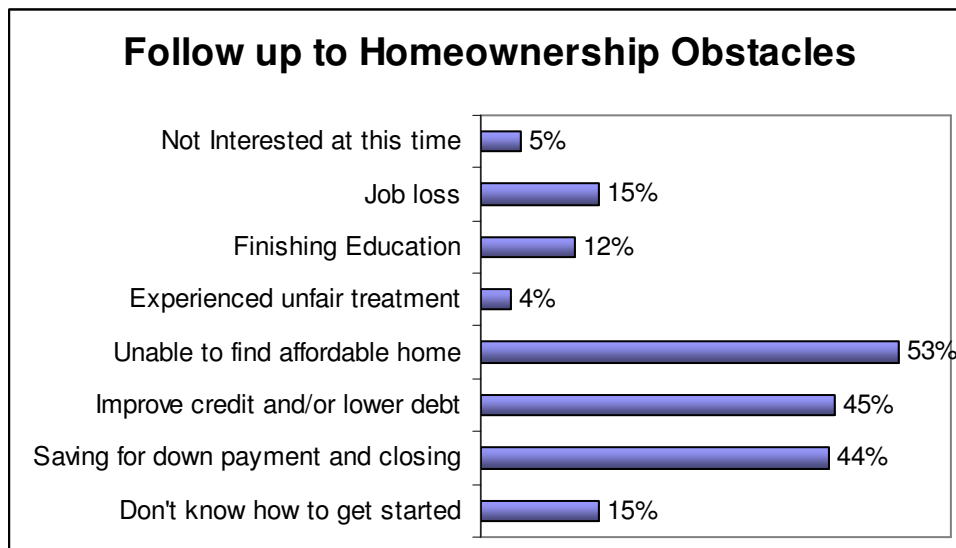


“Attending the seminar before starting the process was the best thing I could have done. It helped prepare us for the road ahead and allowed things to go a lot more smoothly than they otherwise might have.”

Lynn W. – Tacoma, WA

Seminar Participants Who Did Not Purchase

Forty eight percent (48%) of seminar participants indicated that they had not yet purchased a home. WHC asked them what they perceived as the barrier to being able to purchase. Being “Unable to find an affordable home”, “Improving credit/lowering debt”, and “Saving for a down payment” were the main obstacles. Respondents were allowed to mark more than one obstacle. The following chart breaks down all the responses of obstacles these future homebuyers are facing:



“I have not bought a home yet but I am hoping to buy one pretty soon. I am saving money for a down payment and for closing costs.”

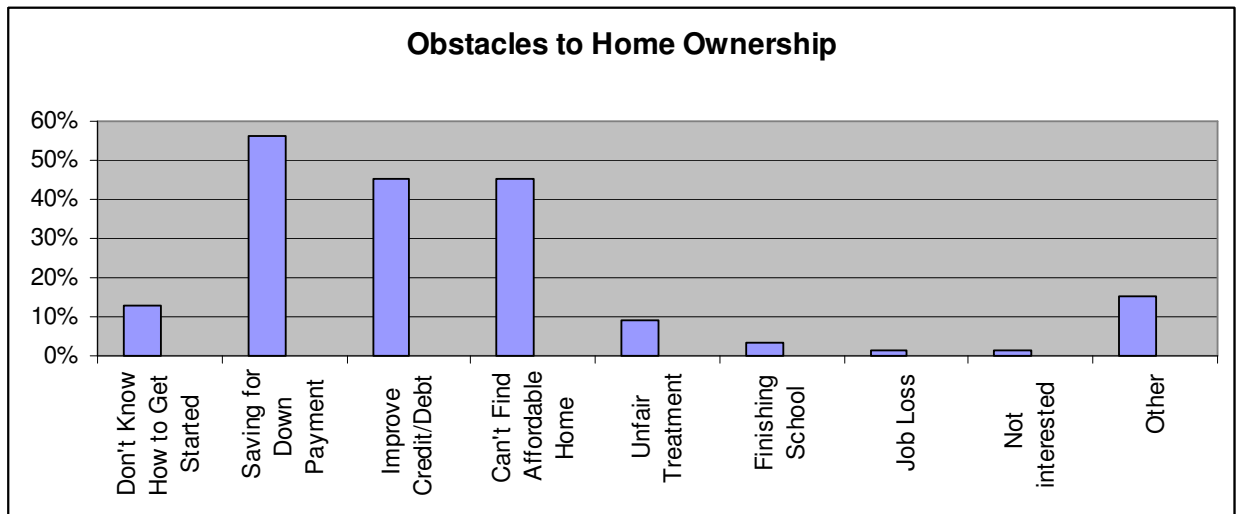
Chaitali R. – Redmond, WA

Although 33% initially indicated that they perceived credit to be a barrier prior to attending the seminar, after attending the seminar, that number had increased to 45%.

Longitudinal Follow-up Survey of Respondents

This year WHC also surveyed respondents from the 2003 survey who indicated they had not yet purchased a home, in order to determine whether they had been able to achieve homeownership after the survey had been completed. For this group, we sent out 221 surveys and received 61 responses back (27% response rate). Of the 61 responses, 17 people indicated that they had purchased a house in the interim (28%). Out of the 17 respondents that were able to purchase a home, four households indicated that they had used a down payment assistance program.

Of the respondents who still had not purchased a home, over half (56%) said they were continuing to save for a down payment, indicating that they hoped to eventually become a homeowner. Additionally, 45% said they were working on credit issues and 45% said they could not find a home that was affordable. Respondents were allowed to mark multiple obstacles.



“I only qualify for about half of what it would take to get into a starter home in my area.”

Molly C. - Spokane

Summary

Since Washington Homeownership Center has been compiling this annual report there have been two results that have been extremely consistent;

- education about the home buying process ranks as the most helpful resource for potential buyers and
- finding an affordable home is still the biggest obstacle.

Over and over, seminar participants told us that they were glad that they had an opportunity to learn about buying a home before starting the process. Although the perceived obstacle “don’t know how to get started” decreased significantly this year in the Needs Assessment Survey due to a change in the methodology (respondents only answered either yes or no, instead of yes, no and potentially in the past), it still decreased by over 50% after respondents attended a Commission-sponsored homebuyer education seminar. The two obstacles “unable to find an affordable home” and “having enough money saved/down payment” continue to be the top two both before and after seminar participation.

It is clear that seminar participants greatly benefit from attending a Commission-sponsored homebuyer education seminar. Adding results from both the follow-up survey and the additional longitudinal follow-up survey we implemented this year, it is apparent that over 65% of participants in the Commission-sponsored homebuyer education seminars achieve homeownership within two years of completing homebuyer education.

The 2005 Annual Homebuyer Education Seminar Survey was conducted by the Washington Homeownership Center, with support from the Washington State Housing Finance Commission and the Department of Housing and Urban Development.

Washington Homeownership Center

The Washington Homeownership Center (WHC) increases and preserves homeownership for low and moderate-income individuals and families throughout the state of Washington. We are a neutral, unbiased information and education source for consumers starting on the path to homeownership. We provide information, guidance, and resources through our Homeownership Hotline, our First-Time Homebuyer Guides, Homebuyer Education seminars, workshops, and through our new website at www.homeownership-wa.org.

Homebuyers statewide can call our free Homeownership Hotline for one-on-one phone counseling and referrals. We provide information about the home buying process and referrals to financial and educational resources for first-time homebuyers. Since 1996, over 20,000 households have contacted WHC for homebuyer assistance. Our research indicates that over 1,200 WHC clients have achieved homeownership after receiving our assistance.

WHC is also a resource for housing professionals. We work closely with lenders, real estate professionals, non-profit housing organizations and government agencies. Since 2001, WHC and the Seattle King County Association of REALTORS® have sponsored seminars educating nearly four hundred REALTORS® on the resources available to low and moderate-income buyers. WHC is a member of both the Seattle King County Coalition for Responsible Lending and the Washington Coalition for Responsible Lending. Both organizations educate consumers how to avoid predatory lenders and assist those who have been victimized by predatory lenders.

Washington State Housing Finance Commission

The Washington State Housing Finance Commission (the Commission) is an independent, financially self-supporting state agency that encourages and finances affordable private sector housing and facilities for non-profit community organizations, at no cost to the residents of the state. The Homeownership Division of the Commission aims to make the American dream of homeownership possible for statewide first-time, low and moderate-income homebuyers by providing a below-market interest rate first mortgage product and several down payment assistance programs. The Homeownership Division trains lenders, real estate professionals and non-profit housing counselors to teach the Commission sponsored First-Time Homebuyer Education seminars throughout the state.

Since 1992, the Commission has sponsored First-Time Homebuyer Education seminars teaching well over 100,000 participants. These free, five-hour seminars are taught by mortgage lenders, real estate professionals, or non-profit housing counselors who have been trained by the Commission to deliver a standard curriculum in an unbiased and accessible manner. The curriculum includes educating consumers on how to qualify for a mortgage, how to choose a real estate professional, warning signs of predatory lenders, fair housing, a glossary of frequently used loan terms and other related topics. WHC directories are provided to seminar participants and provide resources on fair housing, one-on-one homebuyer counseling, down payment assistance, debt and credit counseling and more.

Washington State Housing Finance Commission Needs Assessment

First and Last Name
Address, City, State, Zip, County
E-mail address

Race/Ethnicity

- African American
- American Indian/Alaskan Native
- Asian/Pacific Islander
- Hispanic/Latino
- Caucasian
- Other
- Unknown

Income

- \$20,999 or less
- \$21,000-29,999
- \$30,000-39,999
- \$40,000-49,999
- \$50,000-59,999
- \$60,000-69,999
- \$70,000 or more

Household Size

Number of Adults and Children

1. Where are you in the home buying process?

Mark all that apply:

- Learning about the home buying process
- Reducing debt/cleaning up credit
- Shopping for a loan
- Searching for a home to buy
- Have accepted offer on a house/ready to close
- Other

2. Do you need assistance with? Mark all that apply:

- Credit/debt/bankruptcy counseling
- Down payment assistance
- Affordable housing options
- Housing counseling services
- Translated materials or interpretation services in a language other than English
- Blind/visually impaired/deaf services
- Nothing needed
- Other

3. Are you considering purchasing:

- House, town home, or condominium
- House with rental potential (Duplex, triplex, investment property)
- Manufactured home or mobile home
- Land to build on

What are your perceived obstacles to home ownership? Mark all that apply:

- Having enough money for down payment and closing costs
- Being able to afford a home in a neighborhood that you like and can afford
- Earning enough income to qualify for a loan for the house I want
- Having good enough credit
- Not knowing how to get started buying a home
- Encountering discrimination (unfair treatment)
- Lack of access to translated materials and interpretation services in my first language
- Are you facing other obstacles to homeownership

Washington Homeownership Center Follow-up Survey

1. Which home buying resources have been the most helpful to you, even if you have not yet purchased?

Please rate from most helpful (1) to least helpful (5)

	1	2	3	4	5	
seminar	—	—	—	—	—	Homebuyer education
	—	—	—	—	—	Lender
	—	—	—	—	—	Real estate professional
organization (if applicable)	—	—	—	—	—	Non-profit community
	—	—	—	—	—	Credit counseling
Other	—	—	—	—	—	_____

2. Did you participate in any pre-purchase or credit counseling? (this does NOT include the five-hour Homebuyer Education Seminar)

Yes
 No

3. On a scale from 1-4, please rate how challenging the following areas of the home buying process are to understand. Rate **each** item from challenging (1) to not challenging (4).

	1	2	3	4	
—	—	—	—	—	Credit Scoring
—	—	—	—	—	Mortgage terminology (APR, fixed rate, balloon, debt to income ratios)
—	—	—	—	—	Loan Process (underwriting, documentation, disclosures, appraisal)
—	—	—	—	—	Down payment assistance programs
—	—	—	—	—	Fair Housing Rights
—	—	—	—	—	Closing process- Escrow
—	—	—	—	—	Home insurance, inspections
—	—	—	—	—	Real Estate process(negotiating purchase and sale agreement, finding a home)

4. Do you: (check all that apply)

Have a copy of your credit report
 Know your credit score
 Plan to resolve credit issues before applying for a mortgage

Understand how your credit score impacts your ability to qualify for a loan

5. Have you purchased a home since taking the homebuyer education seminar?

Yes What county did you purchase in? _____

When did you purchase your home? Approximate month/year _____

No - Go to question 11

6. What type of home loan did you use?

House Key, House Key Teacher
 VA
 FHA
 USDA Rural Housing Services
 Conventional (Fannie Mae, Freddie Mac, Ginny Mae)
 Other
 Unknown

7. Was your loan an ___ Adjustable Rate Mortgage (ARM) or a ___ Fixed rate? Please check one.

8. What was your interest rate? ___ 5% or less ___ 5-7% ___ 7-9% ___ 9% or more

9. Did you use any down payment assistance programs?

Was not aware of down payment programs Go to question 12
 Don't know if I used any programs Go to question 12
 Yes Go to question 10
 No Go to question 12

10. Which down payment assistance program/s did you use? Check all that apply. Go to question 12

House Key Plus, House Key Plus Seattle, Home Choice, House Key Rural, House Key Extra
 Seller assisted (ex: Nehemiah, Hart, Futures, Ameridream, GIK, HomeStep)
 AFL-CIO (program for Union members)
 HomeStart Savings Grant Program

Employer Assisted Down Payment, please list employer

Indian Tribal Program

Individual Development Account (IDA)

Other, please list

11. If you have NOT purchased a home, why not?
Check all that apply

Don't know how to get started

Saving for down payment and closing costs

Need to improve credit and/or lower debt

Unable to find a home that I can afford

Have experienced unfair treatment

Finishing education

Job loss

Not interested in becoming a homeowner at this time

Other, please explain _____